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Hilltop fuses broker-dealers

Hilltop Holdings has merged its broker-dealer subsidiaries First Southwest Company and Hilltop Securities.

The newly combined firm will operate as HilltopSecurities and remain headquartered in Dallas, Texas.

The new firm will be led by Hill Feinberg, former chairman and CEO of FirstSouthwest, who will serve as chairman and CEO of HilltopSecurities, and Robert Peterson, former president and CEO of Southwest Securities, who will serve as president and COO.

Lisa Palmeri will run securities lending services and clearing services will be under Lana Calton.

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Dublin is prime for Credit Suisse

Credit Suisse has officially opened its new trading floor in Dublin, giving a new home to key parts of the bank's prime services business, including securities lending, prime brokerage and prime financing.

The new hub for Credit Suisse's prime services business in Europe will house 100 members of staff, including 40 trading, risk and capital professionals, and 60 support personnel.

The Dublin operation will handle trading, capital and risk management for the business, while the salespeople and relationship managers will remain in London due to client proximity, according to Credit Suisse.

Credit Suisse received approval from the Central Bank of Ireland in December 2015 for the new Ireland branch, which is located at Kilmore House in Spencer Dock.

Tim O'Hara, CEO of global markets at Credit Suisse, said: "We have long admired Ireland's commitment to and vision for the country's future as a European financial services centre and we are excited to establish our prime services business here."

Ireland's prime minister, Enda Kenny, commented: "Today's welcome announcement of the creation of 100 jobs by Credit Suisse and the opening of its Dublin branch is very significant."

"It represents a strong endorsement of Ireland's reputation as a leading location for international financial services, building on the very strong job creation achieved in the sector in 2015 as a result of the government's International Financial Services Strategy, IFS 2020."

Collateral Highway races ahead for Euroclear

Euroclear's Collateral Highway mobilised an average of €1.06 trillion in collateralised transactions daily in 2015, a 20 percent increase over the prior year.

The group's operating results for 2015 revealed that client assets held in safekeeping reached €27.5 trillion.

Euroclear delivered an all-time high of €674.7 trillion in the value of securities processed, as well as a record level of collateral outstanding of more than €1 trillion.

DTCC-Euroclear GlobalColateral will also launch the Collateral Margin Utility this year, in a bid to connect the Collateral Highway and Depository Trust & Clearing Corporation's collateral pools under the joint venture.

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NEXT GENERATION TRADING

Hilltop Holdings fuses broker-dealers

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John Muschalek, formerly head of correspondent clearing and securities lending at FirstSouthwest, will be chief administrative officer at HilltopSecurities.

Michael Edge, former CFO of SWS Group, will serve as CFO.

The merger is the culmination of a process that began in January 2015 with Hilltop's acquisition of Dallas-based SWS Group, the parent company of Southwest Securities.

HilltopSecurities features new branding throughout the organisation, including a new logo and a new website at hilltopsecurities.com.

"The completion of our merger propels us into a future filled with opportunity for our clients, our employees, our company and our community," said Feinberg.

"We look forward to continuing to serve as trusted advocates for our clients, delivering the guidance, solutions and services they need to help them achieve their definition of success."

Jeremy Ford, CEO of Hilltop Holdings, added: "We are excited to complete the merger of FirstSouthwest and legacy Southwest Securities, marking an important milestone on our path toward building a leading regional broker-dealer with an expanding national presence."

"HilltopSecurities's cohesive leadership team and experienced employees are well-positioned to carry out the strategic vision for the new firm."

Collateral Highway races ahead

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Tim Howell, CEO of Euroclear, said: "Euroclear has delivered another robust operating performance in 2015, benefitting from continued investments in both traditional products and new services such as the Collateral Highway."

"We continue to support the development of efficient and stable capital markets. We are resolute in our commitment to deliver the regulatory-driven initiatives in our European franchise, as well as providing new capabilities and services to clients around the globe."

SWIFT scores first cloud collateral management firm

SWIFT has signed up the first network cloud-based collateral management solution provider to its network.

CloudMargin will use SWIFT's network to provide clients with direct market connectivity as well as consolidating multiple collateral pools, margin messaging and automated collateral delivery.

SWIFT aims to enable direct, automatic, access to financial institutions across the globe in a bid to overhaul the predominately email-based communication systems currently used.

Andy Davies, founder of CloudMargin, said: "Never before has this level of automation and end-to-end connectivity been seen in an off-the-shelf application that only requires a single, simple, low-touch integration."

"It reinforces CloudMargin's position as the most innovative, functionally complete and accessible solution in the market."

SWIFT's head of securities, Keith Tippell, added: "CloudMargin's adoption of SWIFT connectivity and standards is a great example of a vendor business partnership driving further automation and efficiency for our community."

"This particular engagement forms part of SWIFT's wider global efforts to assist members with STP programmes for collateral management," explained Tippell.

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Hedge funds see positive 2015

Last year was a relatively good one for hedge funds, which finished 2015 with a return of 2.42 percent net of fees, according to the Alternative Investment Management Association (AIMA).

Hedge funds performed better than equities and bonds, on an absolute and risk-adjusted basis, and 65.3 percent of those surveyed reported positive returns.

The report revealed that the best strategies were equity market neutral/quant, which saw returns increase by 10.44 percent, followed by long/short equity, which were up by 6.79 percent, and multi-strategy, up by 5.65 percent.

Jack Inglis, CEO of AIMA, said: "While 2015 will not be remembered as a vintage year for the industry, the majority of hedge funds still produced positive returns amid challenging market conditions, beating stocks and bonds on both an absolute and risk-adjusted basis and preserving capital for pension funds and other investors."

"Given that this period of market volatility is set to continue during 2016, we remain confident that hedge funds will continue to meet their investors' expectations for competitive, diversified and low-volatility returns."

The data is based on returns reported to HedgeFund Intelligence, and included submissions from firms with assets under management totalling about $1.1 trillion.

BNY Mellon securities lending boasts Q4 growth

BNY Mellon's securities lending revenue jumped 8 percent between Q3 and Q4 2015.

Securities lending revenue hit $46 million in Q4, up from $38 million in the previous quarter. This consecutive growth was complimented by year-on-year growth from $37 million in Q4 2014.

The bank's overall asset servicing fees, which includes securities lending revenue, fell 2 percent from Q3 to Q4 2015.

Fees held at just over $1 billion, achieving year-to-year growth of 1 percent.

According to BNY Mellon, the year-over-year increase primarily reflects higher securities lending revenue and growth in the global collateral services and broker-dealer services.

This growth was partially offset by the unfavourable impact of a stronger US dollar, and the sequential decrease primarily reflects lower client activity.

Financing-related fees, including BNY Mellon's broker-dealer triparty repo services, chalked up significant annual growth.

Overall fees revenue achieved $51 million in Q4 2015, compared to $43 million the year before. However, this was down from $71 million in Q3 2015.

The year-over-year increase primarily reflects higher fees related to secured intra-day credit provided to dealers in connection with their triparty repo activity, according to BNY Mellon.

The sequential decrease was caused by lower underwriting fees.

Hong Kong expands shorting list

China Energy Engineering became eligible for short selling on the Hong Kong Stock Exchange on 29 January.

The Chinese engineering firm, which first listed on the Hong Kong Stock Exchange in December 2015, was added to the official list of designated securities eligible for short selling.

China Energy Engineering, part of state-owned enterprise China Energy Engineering Group, raised $1.8 billion in its initial public offering before its launch late last year.

The latest addition to the short selling list joins the likes of Air China, Sinosoft Technology and Cosco Pacific.

BNP Paribas to utilise €GCPlus

BNP Paribas Securities Services now offers clearing, settlement and custody services for clients trading euro cash liquidity through LCH.Clearnet's €GCPlus product.

€GCPlus was developed in collaboration with Banque de France and Euroclear and offers a centrally cleared triparty repo secured financing market.

Participants can secure euro cash lending with standardised baskets of collateral, to re-use eligible collateral received either with the Banque de France or with any of the collateral takers.

BNP Paribas Securities Services will act as sole general clearing member on the €GCPlus service and will handle the legal relationship with LCH.Clearnet, post-required default fund contributions and pre-fund margin call payments on behalf of its clients.

Clients will also benefit from the French bank's clearing and settlement systems while avoiding some of the implementation costs linked to new clearing regulations.

Jean-Marc Baudot, head of clearing, custody and settlement products in Belgium, France, the Netherlands and Portugal at BNP Paribas Securities Services, commented: "Our clients are looking for ways to manage collateral efficiently, move it quickly and address their funding needs."

"€GCPlus is one of the products that help them do that."

"Consequently, we have devised a range of services designed to handle the various operational processes linked to trading €GCPlus," added Baudot.

Michael Carignano, head of fixed income at LCH.Clearnet, said: "An increasing number of market participants are looking to gain access to central clearing so they can benefit from greater operational and capital efficiencies."

Securities finance revenue a hit for State Street

State Street earned $127 million from securities finance during an otherwise difficult Q4 2015 for the bank.

Securities finance revenue in Q4 2015 increased 12.4 percent over Q3, "primarily due to higher spreads", and 19.8 percent year-over-year thanks to new business from the bank's enhanced custody offering, which provides principle securities lending services to custody clients.

Losses elsewhere contributed to a dip in State Street's overall revenue for the last three quarters of 2015, which fell to $2.59 trillion, 2 percent lower than Q3 2015 and a drop of 4.8 percent year-over-year.

Joseph Hooley, chairman and CEO of State Street, commented: "Our performance in Q4 reflects the continued challenges presented throughout 2015, including challenging global equity markets, particularly in emerging markets, persistent low interest rates, the strengthening US dollar, and heightened regulatory expectations."

Despite the difficult quarter, which saw assets under management fall from $2.45 trillion in Q4 2014 to $2.25 trillion in Q4 2015, and assets under custody and administration drop to $27.51 trillion from $28.19 trillion during the same period, State Street did secure new asset servicing commitments of approximately $300 billion in the final three months of 2015, resulting in $800 billion of new mandates in total last year.

Traiana and Trax offer joint repo matching service

Traiana and Trax have formed a business alliance to offer a repo matching service that will support automated, efficient operational processes ahead of significant regulatory change.

The service aims to allow clients on both sides of the transaction to confirm and match repo transactions with one another, creating an expanded community of users and matching counterparties through an automated service operated by Trax.

The move comes in response to the upcoming reporting requirements of the Securities Financing Transaction Regulation, which was implemented on 12 January.

Trax will leverage its existing repo matching technology to centrally match each submitted repo transaction among buy- and sell-side clients of both firms.

Matching statuses are communicated and each client has the ability to constantly manage often-complex lifecycle events.

Camille McKelvey of Trax said: "In light of impending regulation impacting the European repo market, both Trax and Traiana recognise the need for the industry to improve its post-trade workflow by automating trade date risk management processes."

Laura Craft, Traiana's director of securities product strategy, added: "We are delighted to be working with Trax to bring an interoperable repo matching solution to the market."

"We have listened and responded to industry demands, led by the International Capital

Market Association European Repo and Collateral Council Operations Group."

"This latest solution underlines Traiana's cross-asset post trade strategy, enabling our clients to gain even greater operational efficiency across securities financing."

Northern Trust's sec lending ends 2015 on a high

Northern Trust's securities lending revenue showed strong growth in Q4 2015, growing 13 percent on over the previous quarter.

The bank chalked up $22.3 million from its securities lending business in Q4 last year, compared to $19.8 in Q3.

Year-to-year data also showed modest growth of 3 percent from Q4 2014's $21.8 million to 2015.

In its quarterly report, the bank pointed to high spreads as the primary cause for the increase in revenue.

HazelTree partners with AcadiaSoft

HazelTree has partnered with AcadiaSoft to enhance the collateral management capabilities of the HazelTree Integrated Treasury Management Solution.

The existing HazelTree collateral management solution will be combined with AcadiaSoft MarginSphere, a margin confirmation community that aims to streamline communications between counterparties engaged in collateral management.

The combined service is open to hedge funds, fund administrators, managed account providers and family offices and will be available in Q1 this year.

The expanded functionality of the HazelTree collateral management solution will allow market participants to communicate information on exposures, commitments and adjustments between counterparties in a complete, verifiable and secure manner via electronic messaging.

The integration will enhance HazelTree's solution to the complex issues associated with collateral management workflow, while providing the MarginSphere users with access to HazelTree's hedge fund and asset manager clients.

It is capable of handling any product covered within an International Swaps & Derivatives Association, credit support annex or global master repurchase agreement.

Stephen Casner, CEO of HazelTree, said: "Collateral management is integral to treasury management and it is becoming increasingly complex and difficult to manage due to a range of regulatory and other factors."

"Our partnership with AcadiaSoft brings best-in-class collateral management enhancements to our platform and will provide HazelTree customers with additional opportunities to improve business results through reduced risk and more efficient operations," he added.

David Radley, client engagement director of AcadiaSoft, added: "Our strategic partnership with HazelTree provides AcadiaSoft with seamless access to HazelTree's impressive roster of hedge funds and asset managers which is important to the continued expansion of our margin confirmation community. By working together, HazelTree and AcadiaSoft will further the implementation of industry standards for the margin process—a critical element of Dodd-Frank and Basel III compliance."

Brazil CCP gets less for more

The Brazilian central counterparty (CCP) BM&FBovespa managed to complete more

securities lending trades last year than in 2014 but suffered a drop-off in total revenue year-over-year.

The CCP recorded BRL 665.73 billion ($164.54 billion) in 2015 with 1,519,445 total trades, compared with BRL 735.01 billion ($181.71 billion) from 1,518,369 trades the previous year.

Month-to-month data showed securities lending revenue fall from BRL 49.83 billion ($12.31 billion) in November to BRL 44.84 billion ($11.08 billion).

Transactions volume also fell from 106,037 to 122,39 in the same period.

Brazilian exchange traded funds (ETF), in contrast, boasted significant growth year-to-year.

BM&FBovespa ETFs were valued at BRL 35.41 billion ($8.75 billion) from 2,363,773 transactions for 2015 compared to BRL 25.07 billion ($6.19 billion) in 2014 with 1,448,635 transactions.

BlackRock enjoys lending boost in Q4 thanks to securities on loan

BlackRock's securities lending revenue increased by $20 million in Q4 2015.

The US investment management firm said the rise over Q4 2014 was due to an increase in average balances of securities on loan.

Investment advisory, administration fees and securities lending revenue increased $64 million from Q4 2014, thanks to higher long-term average asset under management and increased securities lending revenue.

Securities lending revenue also increased $22 million between Q3 and Q4 2015, adding to an overall services increase of $4 million quarter-to-quater for investment advisory, administration fees and securities lending.

BlackRock's iShares achieved long-term net inflows of $60.2 billion, led by equity net inflows of $47.6 billion.

This growth reflected demand for US equities and broad developed market exposures.

Fixed income net inflows of $11.9 billion included strong flows into core, high-yield and investment-grade corporate bond funds.

Laurence Fink, CEO and chairman of BlackRock, said: "BlackRock's iShares franchise generated $130 billion of net inflows during the year and captured the number one share of flows globally, in the US and in Europe in 2015."

He added: "iShares led the industry with $50 billion in fixed income ETF flows, as clients increasingly recognise that the benefits of ETFs—including liquidity, low cost and tax efficiency—apply to fixed income products just as they do to equities."

Basel III forces hedge funds to reform prime broker partnerships

The majority of hedge fund managers have revised their relationships with prime brokers in order to better tackle new regulatory challenges, according to an Alternative Investment Management Association (AIMA) and S3 Partners joint survey.

Basel III has already caused 75 percent of the survey's respondents to rethink how they do business with their prime brokers and more than 67 percent have cut the levels of cash kept on their brokers' balance sheets.

The survey also found that most alternative asset managers either maintained or increased the number of prime brokers over the last two years—with four being the average.

It was further revealed that only 20 percent of managers have a clear understanding of how their prime brokers calculate their worth in terms of the revenue they provide relative to balance sheet impact.

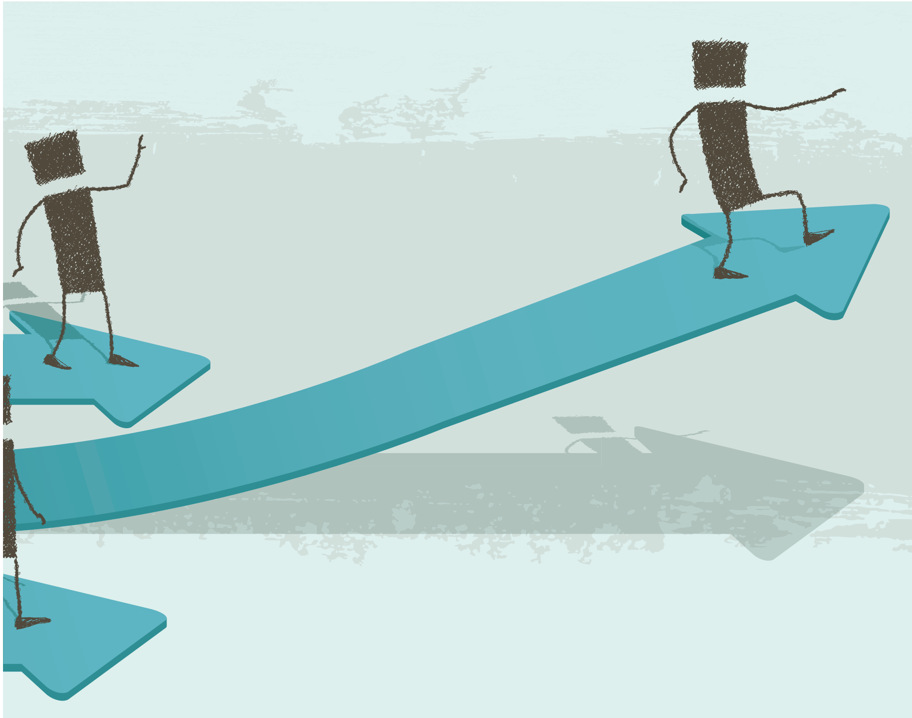
Fewer still have the data necessary to calculate this themselves, found the survey.

More worryingly for investors, the report claimed that a lack of consensus around the meaning of a number of prime brokerage terms existed among fund managers.

Terms such as ‘reconciliation’, ‘collateral management’ and ‘collateral optimisation’ were all cited as confusing to some managers.

AIMA and S3 said this highlights the need for a common language to define key terms.

Following these results, AIMA and S3 recommended that all fund managers should make sure they have the right data, including unbiased data sources; use a different set of analytic tools and calculations; and make sure that they and their financing counterparties are speaking a common language.



The survey was comprised of 78 alternative asset managers, ranging from small single-strategy managers to large global multi-strategy managers.

ETF assets took off in 2015

Exchange-traded fund (ETF) assets held by financial intermediaries reached an all-time high of $2.2 trillion in 2015, according to data from Broadridge’s Fund Distribution Intelligence.

ETF assets saw an increase of $124 billion, or 6.1 percent, which the report attributed to an increase in the popularity of passive investment vehicles. Passively managed index funds and ETFs increased by 2 percent between Q4 2014 and Q4 2015, while actively managed funds and ETFs dipped by 1 percent. According to Broadridge, this trend is set to continue as use of ETFs and index funds increase for core allocations.

In contrast, although the total of long-term mutual fund assets exceeded ETFs at $7.29 trillion, this is $161 billion less than the total at the end of 2014, marking a dip of 2.2 percent.

The only channels that saw an increase in long-term mutual fund assets were the bank and discount channels, which registered increases of $52 billion and $29 billion, respectively. These also have the highest usage among passively managed products.

A larger increase in the use of passive products was seen in retail distribution channels, which registered a 2.6 percent increase, compared to a 1.6 percent increase in institutional channels.

Of the retail channels, registered investment advisors saw the strongest growth in ETF distribution, increasing from $413 billion in Q4 2014 to $500 billion in Q4 2015. This is also an increase over Q3 2015, which registered $465 billion in ETF distribution.

Registered investment advisors now make up 30 percent of all usage of passive products, although online retail shareholders still account for the majority, with 58 percent of all usage.

Conversely, independent broker dealers are the highest users of active funds, holding more than 80 percent in active investments.

Passively managed products now make up 31 percent of usage across all channels, compared to 29 percent at the end of 2014.

Broadridge attributes this to an increase in use of both index funds and ETFs by advisors, and also in model portfolios.

Frank Polefrone, senior vice president of Broadridge’s data and analytics business, said: “The increased usage of passive investments across all distribution channels accelerated in 2015.”

“Our analysis shows that passively managed index and ETF assets increased by 2 percent during 2015, while actively managed funds and ETFs saw a 1 percent decrease.”

Broadridge’s Fund Distribution Intelligence analyses sales and asset data across more than $9 trillion in long-term mutual fund and ETF assets spanning more than 900 distributors.

Record-breaking 2015 for securities lending in Asia, finds Markit

The Asian securities lending industry raked in $672 million from lending out stocks in 2015, marking a bumper year for the region.

Last year’s figure cleared 2014’s total revenue by a cool 21 percent, according to Markit.

“Last year’s volatile Chinese markets offered ample opportunities for Asian short sellers to short shares directly exposed to the country’s economic headwinds as well as shares that came under pressure from the country’s slowing demand for commodities,” stated Markit’s regional revenue report for 2015.

“Stock borrowing activity in the region surged to multi-year highs with every major market seeing an increase in demand.”

“The record-breaking year raised the bar from the previous record of $643 million achieved in 2012.”

Markit suggested the increase in the value on loan as one of the main drivers behind the growth.

The average daily value of shares on loan on any given day, at $115 billion, represented a 15 percent increase on the previous year.

This signified the largest average daily balance since 2008 when $130 billion shares were out on loan on any given day.

South Korea and Hong Kong were the two markets to generate the most year-to-year growth of all the individual Asian markets.

Both countries increased their annual revenues by more than $60 million in 2015, which, for South Korea, represents a doubling of its aggregate annual revenue.

Markit’s analysis noted that Hong Kong’s share of the region’s total revenue increased to 40 percent from 38 percent in 2014.

At the same time, Japan’s contribution to the region’s securities lending revenue fell by 5 percent to 21 percent after its own revenue dropped by $5 million.

Taiwan was another country that failed to match the region’s bumper year as its total revenue fell by $12m compared with 2014.

Specials generated more than 80 percent of the region’s revenues, despite only making up 21 percent of the balance on any given day.

BNY Mellon supports Canadian collateral financing first

Karson has completed the first K-note reinsurance collateral financing transaction in Canada, supported by BNY Mellon.

Developed by Karson, the K-note is a marketable security that requires the issuer to pay the face value amount plus interest upon maturity, or if demanded earlier.

They were developed to meet US insurance regulation criteria, but also present an alternative to traditional letters of credit, funded trust accounts and credit-for-reinsurance applications.

They can also be used as admitted assets, which can be held as capital on the books of a ceding insurance company.

The K-note transaction platform is supported by BNY Mellon's corporate trust, custody and collateral management services, and is designed to be scalable and efficient. BNY Mellon's London team was selected to support the Canadian transaction in 2009, and the bank also provides access to wider capital markets to provide financing capacity.

The Canadian transaction involved the issuance and deposit of a K-note in to a reinsurance security arrangement account, which was established in accordance with the Canadian Office of the Superintendent of Financial Institutions.

It is backed by a payment obligation of a third-party financial institution and a portfolio of investment assets.

Derrell Hendrix, CEO of Karson, said: "We are pleased to have concluded this first of what we hope to be many Canadian reserve financing transactions based on clear guidance from the Canadian regulator."

He added: "The Karson programme has again successfully transformed its access to market capacity into the issuance of an instrument, a K-note, that satisfied our client's reinsurance collateral financing need."

"We have been able to meet a very challenging client requirement while continuing to develop a scalable and sustainable execution platform with our partners at BNY Mellon."

Dean Fletcher, head of corporate trust for Europe, the Middle East and Africa at BNY Mellon, said: "With the influx of new regulations there is a continual need to scrutinise effective ways of meeting capital adequacy requirements."

"This is a landmark transaction and will provide a template for us to work with Karson to help their clients navigate the new regulatory landscape following the financial crisis," added Fletcher.

Karson has completed 16 K-note transactions to date, raising $8.2 billion in reserve collateral and capital financing capacity on behalf of its clients.

AI to tackle big data challenges

Artificial intelligence as the solution to managing big data has taken another leap forward with the release of RAVN ACE, which offers automated data extraction for International Swaps and Derivatives Association (ISDA) master agreements.

The new system, created by London-based technology firm RAVN Systems, uses the RAVN Applied Cognitive Engine (ACE) and is aimed at banks and other market participants in the over-the-counter derivatives market needing to better manage counterparty exposures and corresponding collateral obligations.

Certain ISDA contracts are being renegotiated in order to remove excessive levels of risk, causing documentation management issues for derivatives users, and stretching operations departments.

The new technology combines elements of artificial intelligence and information processing to create a platform that can read, interpret, extract and summarise information within legal documents, such as ISDA CSAs.

It then converts this unstructured data in to structured output, working more quickly and accurately than a human could.

Extracted information can include the structure of the agreement and clauses and sub-clauses, which can be helpful for renegotiation of contracts.

RAVN ACE can also extract key definitions, including collateral data.

That data can then be made available for input in to contracts, collateral management systems and margining systems, or provided in Excel or XML format, for analysis.

In addition, the technology can provide an in-context review and preview of the extracted information, making it easier for firms to further validate the data in the context of the original agreement.

Once data is extracted and audited, RAVN ACE can analyse the content, identifying high credit risk relationships and scoping the size of the contract rewriting required.

The system intends to help institutions cope with the challenges of renegotiating multiple contracts, and thereby reducing risk and remaining compliant.

It will also allow them to manage their time more efficiently, while keeping costs to an absolute minimum.

LCH.Clearnet gains recognition from regulator in Singapore

Global clearinghouse LCH.Clearnet has been granted the status of recognised clearinghouse by the Monetary Authority of Singapore (MAS).

The recognition applies to LCH.Clearnet's EnClear freight division, and the ForexClear and SwapClear services.

It means firms affected by Singapore's proposed clearing mandates will be able to meet their obligations by clearing through LCH.Clearnet.

The elephant(s) in the room

CCPs, indemnification, regulation, a collateral shortage and more dominated discussion at the Clearstream GSF Summit in Luxembourg

The 20th Clearstream GSF Summit in Luxembourg opened with a 'milestones and memories' session that saw nine industry professionals discussing the highs and lows of their careers.

For good or for ill, the panel explained, the spotlight that was shone on various aspects of this niche financial sector in the immediate aftermath of the crash helped stimulate education in the wider financial sector and ultimately boosted business for long-neglected securities lending and repo desks.

"I remember when I got a call from the CEO one day shortly after the crisis who was very surprised to hear that we had a repo desk at the bank. He was very interested to learn what exactly it was we were doing," reminisced one panellist.

The industry has come a long way since 2008 and the whole panel was overtly bullish about its future.

Although, according to the panel, there are many issues still to be addressed in the coming months and years that will have the potential to cause huge disruption throughout the industry, if they are not handled properly.

These include, but are by no means limited to: the suitability of the central counterparty (CCP) model to securities lending; the unintended consequences of the Financial Transaction Tax, Basel III and European Market Infrastructure Regulation on the likes of the repo market; a potential collateral shortage; and the future of indemnification.

Keynote speaker Andy Jobst of the International Monetary Fund tackled CCPs, stating: "All the evidence shows that collateral fluidity across CCPs is essential for their use to be maximised."

Jobst argued that CCPs, as a concept, are good for the industry and will likely become an established feature sooner or later, but the lack of balance sheet netting benefits is holding back their progress.

Moving onto the struggles of the European repo market, Jobst claimed that it is simply becoming "unprofitable and uneconomic".

But not everything was negative. "Without quantitative easing we would be in a much worse place in the repo market," he added.

Overzealous regulation, specifically Basel III's liquidity coverage ratio (currently only 70 percent implemented), was highlighted as a major driver behind the European repo market becoming less attractive.

"We need better regulation that understands (and tackles) market risk but also understands the collateral damage that a regulation may cause," explained Jobst.

This point was reiterated later by BNP Paribas's Eugene McGrory, who said: "The liquidity ratio is the biggest single challenge to the repo market in recent years."

The gravity of the situation

Regulatory demand for collateralised trading is dragging more and more organisations into the orbit of collateral optermisation, giving more weight to automated margin calling services as a result.

"Automation will help the buy side to manage the growing demand for daily margining," explained Chris Walsh of AcadiaSoft. Rob Scott of Commerzbank concurred and raised the point that outsourcing margin functions is a valid option for buy-side firms feeling swamped by daily margining requirements.

The question of concentration rules for initial margins was raised in a question and answer session. Both panellists and audience members were critical of the ambiguous rules currently being set both in and outside of Europe. One panellist pointed out that although initial margins were set for some regions, there was a distinct possibility they could change before the final draft is confirmed.

For once, regulation was seen as a boon by Clearstream representatives, who outlined how they are "uniquely placed" to take on the business created by new requirements to centrally clear and collateralise trades. The overhaul of Deutsche Börse's securities lending services and Clearstream's Global Liquidity Hub were highlighted as central to the post-trade provider's plans to leverage the upcoming opportunities.

According to Clearstream, the concern over demand for high-quality liquid assets becoming unsustainable is a non-issue.

Demands for collateral will reach roughly $4 trillion in the next few years, attendees heard, but representatives of Clearstream were unconcerned. "It's not that there [won't be] enough collateral," explained one senior Clearstream representative. "It's just that there is a problem with the mobility of collateral that should be available in the market."

"Beneficial owners with long positions on government bonds may not be tempted to enter the lending space now when there is only 5 or 6 basis points (bps) to be made, but if that goes up to 20 or 25 bps, I think we will begin to see more securities being released for lending. It's already starting to happen."

The gulf between supply and demand in the securities lending space is, according to Clearstream, a strong indicator that there is no reason to worry about a collateral shortage any time soon. **SLT**

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Black gold or dark trouble?

In times of trouble, investors usually seek safe havens such as gold. If you choose gold, perhaps opt for the yellow over the black variety, according to David Lewis of FIS Astec Analytics

Oil is everywhere—literally. It is obviously in your car as fuel and lubricants, but did you know that each tyre on your vehicle uses eight gallons of oil to make? Oil is also in many cosmetics and even in medicines, including every day painkillers. It is, perhaps ironically, even used extensively in homeopathic treatments. Despite its natural appearance as a dirty substance, it is present in laundry and dish detergents as the petrochemical synthetic glycerine.

And what about food? Pesticides and fertilisers commonly contain oil-based chemicals so olive oil will not be the only oil in your food today. You might be wearing it, too. Synthetic fibres such as nylon, polyester and spandex all include oil-based products. Plastic cannot exist without oil, and we cannot exist without plastics.

So a crash in the price of the raw material used in almost everything we own, consume, touch or use has to be good for everyone, right? Wrong. For some, it is very bad news and everything from small companies to national economies are being adversely affected by an oil price below $30 per barrel. That same barrel would have cost more than $110 just 18 months ago, and more than $60 seven months ago. The causes of this collapse in oil prices have been described and discussed at length elsewhere—it is the downstream impact of these changes that is of concern here.

To the consumer, the most obvious effect is potentially at the petrol station. Petrol in the UK is hovering around the £1 per litre mark having fallen quickly from around £1.30. Compare that with the US, which is seeing petrol bounce back over $1 per gallon on the back of strengthening demand. The effect on prices of all the other goods that use oil as an input is less obvious, but some have connected the stubbornly low inflation rates in some developed economies with lower input costs.

Moving focus from the individual up to the industrial organisation, oil producers such as British Petroleum (BP), Royal Dutch Shell (RDSA) and others are all shedding jobs. BP reduced its North Sea workforce alone by 600 people in January. Among other losses, this has been enough to prompt the UK government into setting up a ‘North Sea Support Group’ to look at protecting this most vital industry. This reflects the concerns that governments have with regards to their economic strength and earning power. Some economies are, of course, much more dependent on oil production and sales than others—Russia being a prime example.

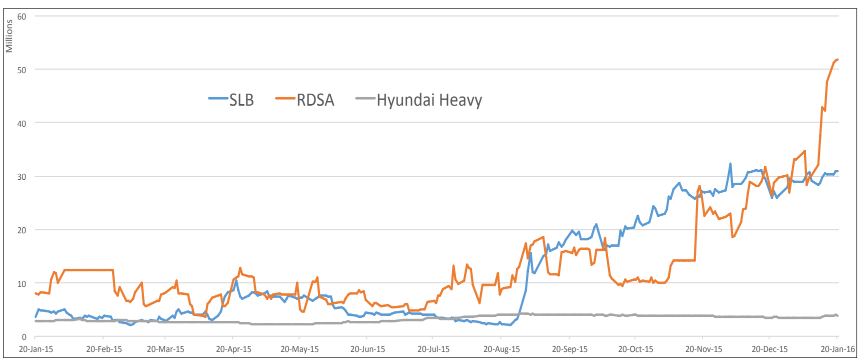
Falling oil revenues means falling investments, potential job losses and increased welfare costs. Combine this with the issues in the steel production industry, which is also suffering from a glut of cheap products, then heavy industry is in serious trouble. Hyundai Heavy Industries (9540.KS), the South Korean heavy machinery producer, has announced it is shutting its oil rig factory. Schlumberger (SLB) is the world’s largest oilfield services company. In January it warned that many of its clients were abruptly cancelling projects. Its response was to lay off 10,000 staff and announce a $10 billion buy-back in an attempt to support an ailing share price and maintain control of its costs. The share price of SLB is down more than 25 percent over the last 12 months with almost all of that occurring since August 2015, which is when short interest levels took off (see Figure 1).

Securities lending volumes, taken here as a proxy for short interest, show SLB at levels between six and 10 times the normal balance over the last five years and the highest since their all-time high seen in August and September 2010. Hyundai Heavy, despite showing a less dramatic change, is now within 5 percent of its all-time high level of short interest—a level hit in September 2015. RDSA is also hitting the high points with levels of short interest at 10 times the levels normally seen outside of dividend dates (see Figure 1). Please note, dividend trading volumes have been smoothed from Figure 1 for RDSA.

The last few days have seen a great deal of turmoil in global markets with talk of many entering the ‘bear market’ zone, defined as at least 20 percent lower than peak. Short interest is indeed increasing on a number of fronts and not just the oil industry. Markets have stabilised a little at the end of a difficult week, potentially at least in part due to the continued quantitative easing hinted at by the European Central Bank. However, price support cannot last forever and the short side of the market may well be ready to take advantage if the price correction comes. In times of trouble, investment money typically seeks safe havens such as government debt and gold. If you choose gold, perhaps choose the yellow one and not the black variety. **SLT**

> ***Short interest is indeed increasing on a number of fronts and not just the oil industry***
>
> **David Lewis,** EMEA head of Astec Analytics, FIS

Figure 1: Securities Lending Volumes for the 12 Months to 20 January 2016



Industry Events

IMN's 22nd Annual Beneficial Owners' International Securities Lending & Collateral Management Conference

Date: 03 - 05 February 2016
Location: Arizona
www.imn.org

In such a dynamic market, beneficial owners need to fully understand where the industry is heading, the implications for their securities lending programmes, and what it is that they need to be doing to position themselves for continued success in the new world order.

ISLA's 25th Annual Securities Finance and Collateral Management Conference

Date: 21-23 June 2016
Location: Austria
www.isla.co.uk

Join ISLA in Vienna for the 25th Annual Securities Finance and Collateral Management Conference 2016 to:

- Understand from industry leaders how they are redefining our markets and how supply can more effectively link with demand
- Consider how new products and alternative ways of doing business will define the next five years
- Better appreciate how regulation is changing trading patterns and behaviours and how the industry will deal with future shocks
- Debate with your peers the changing role of collateral and how we do more with less
- Hear how the buy side view the role of securities financing and their service providers evolving to reflect these new norms

Industry Recruitment

Prime Brokerage Product Control

Recruiter: Bruin
Location: London

One of the world's leading Investment Banks is seeking a Product Controller to join their Prime Brokerage team in London. The successful candidate will sit in the Swaps, Delta One and ESF team, covering a broad variety of tasks across the team.

Global Lead, Securities Lending Product Development

Recruiter: Redland Search
Location: London

This is a globally renowned, best in class, pure custodian bank. Regarded as the best provider of Sec Lending services and having the best track record for staff retention and career development, this is an opportunity that should interest you if you feel you have what it takes.

Collateral Client Services Associate

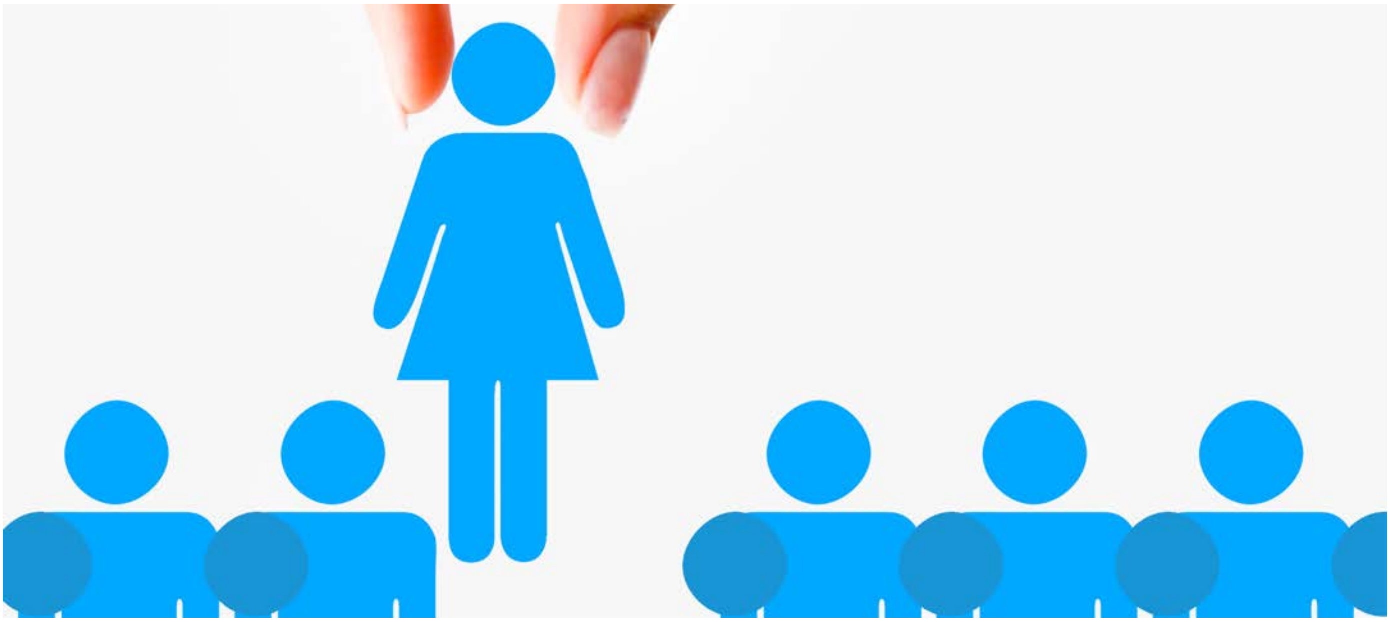
Recruiter: CloudMargin
Location: London

This Collateral Client Services Associate will take day-to-day ownership of the relationship with our rapidly growing client base. You will liaise with both new and existing clients, as well as have the responsibility for ensuring complete client satisfaction in line with CloudMargin's mission.

Business and Client Support Specialist, Permanent

Recruiter: Pirum
Location: London

Pirum is a dynamic Financial Technology company established in 2000, which provides a comprehensive and highly functional set of electronic services to support post-trade processing in the Securities Lending and Repo markets. Our client base includes most of the top-tier financial institutions in these markets throughout the world.



Arrivals and Departures at Clearstream, the SEC and ESMA

Clearstream's head of investment funds services, **Philippe Seyll**, has added oversight of the global securities financing business to his role at the post-trade services provider.

Seyll takes over from Stefan Lepp, who stepped down from the role in November 2015.

On top of his new global securities financing and current investment funds services responsibilities, Seyll is also co-CEO of Clearstream Banking, a member of the Clearstream board and chairman of LuxCSD.

Before joining Clearstream in 2005, Seyll was managing director and head of asset manager services at The Bank of New York in London.

He began his career at SWIFT in Brussels in 1988.

Goldman Sachs has appointed **Lucia Arienti** to lead its prime brokerage consulting team for Europe, the Middle East and Africa, according to multiple sources.

Arienti, who has been with the bank for 14 years, will replace William Douglas, who left in January to join Caius Capital as COO. Previously, Arienti worked within the bank's prime brokerage sales team.
She will assume her new role immediately and be based in London.

The Securities and Exchange Commission's (SEC) associate director of the division of investment management, **Susan Nash**, has left the agency after 26 years of service.

According to the SEC, Nash has been a key architect of disclosure policy for mutual funds and other investment companies, and has led the division's oversight of variable annuity and variable life insurance products.

She also recently played a leadership role with the Financial Stability Oversight Council in the analysis of potential financial stability risks posed by asset management activities and products.

Nash previously served in a number of positions in the investment management division, including assistant director in the insurance products office.

She joined the SEC in 1989 as counsel to former chairman Richard Breeden, before joining the investment management division in 1993.

"It has been my privilege for many years to serve as a member of the SEC's staff as we have worked to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation," said Nash.

"I am especially proud of the hard work that our dedicated and talented team in the division undertakes every day to improve the information provided to mutual fund and variable annuity investors who rely on these products to fund their retirement, children's education, and other critical financial needs."

David Grim, director of the division of investment management, added: "Susan Nash's judgement, dedication, and commitment to excellence have substantially contributed to the division."

"In particular, her tireless work to enhance disclosure has significantly helped America's investors."

BNY Mellon has appointed **Jacqueline Joyston-Bechal** to lead its advisory compliance team for investment services in Europe, the Middle East and Africa (EMEA).

Jacqueline Joyston-Bechal arrives at BNY Mellon from the Bank of England in Londons

Joyston-Bechal joins BNY Mellon from the Bank of England, where she was head of legal for the markets, banking and notes directorates.

In her new position, Joyston-Bechal will take a leading role in advising and supporting the senior management teams in both the EMEA and in global risk and compliance, and will work closely with regulators throughout the region. She is based in London and reports to Alain Lesjongard, head of international compliance at BNY Mellon.

"Jacqueline Joyston-Bechal has a thorough understanding of regulatory and public policy issues, including prudential risk and reputational risk management," said Lesjongard.

"We are expanding our compliance team and continue to deepen our expertise in areas such as prudential matters, conduct risk and financial crime to meet the evolving regulatory landscape across the EMEA."

Mark Bowers has rejoined Deutsche Bank Global Transaction Banking as a business control officer in London.

Bowers previously worked at RBS as an equity finance director.

Before that, he worked as an equity finance trader at Deutsche Bank, which he joined after holding a stock loan trading role at Morgan Stanley.

The European Securities and Markets Authority (ESMA) has appointed **Anneli Tuominen** as vice chair.

Tuominen is director general of the Finnish Financial Services Authority, which is responsible for banking, insurance, and securities supervision.

She replaces Carlos Tavares, former chair of the Portuguese Securities Market Commission, who has completed his term. Tuominen will begin her own two-and-a-half-year term as vice chair immediately.

Tuominen is a voting member of several supervisory boards, including for the European Banking Authority. She has also chaired various committees, including the financial innovation standing committee.

Anneli Tuominen is director general of the Finnish Financial Services Authority

ESMA chair Steven Maijoor said: "I am delighted to announce the appointment of Anneli Tuominen as ESMA vice chair."

"As one of our longest-serving members she has demonstrated her commitment to supporting ESMA in the pursuit of its goals, through her active participation as a board member and her previous chairmanship of the Financial Innovation Standing Committee. I look forward to working with her."

"I would like to pay tribute to Carlos Tavares who, through his contribution as vice chair of ESMA … has made an enormous contribution to ESMA's success to date. I wish him well for the future." **SLT**

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